

December 6, 2008

Board of County Commissioners  
Alan B. Armijo, Chair  
Deanna Archuleta, Vice Chair  
Teresa L. Córdova, Ph.D., Member  
E. Tim Cummins, Member  
Michael Brasher, Member  
One Civic Plaza, 10<sup>th</sup> Floor  
Albuquerque, New Mexico 87102

Dear Commissioners:

County management hereby submits the Comprehensive Annual Financial Report (CAFR) of the County of Bernalillo (the County), New Mexico, for fiscal year ending June 30, 2008.

New Mexico State Statute 12-6-3, NMSA 1978 Compilation requires that an annual audit of a governmental unit's accounting records and Comprehensive Annual Financial Report be performed by independent public accountants. Federal law also requires that a single audit be performed for federal grant funds in conformance with the provisions of the Single Audit Act of 1984 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." All information related to the single audit, including the schedule of expenditures of federal awards, findings and recommendations, and the independent auditors' reports on the internal control structure and compliance with applicable laws and regulations are included in the Single Audit Section.

County management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal controls that were established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Moss Adams LLC, Certified Public Accountants, have issued an unqualified opinion on the County's comprehensive annual financial report for the fiscal year ending June 30, 2008. The

independent auditor's report is located at the front of the financial statements.

Management's discussion and analysis (MD&A) immediately follows the independent auditors report; it provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A provides a context to this letter of transmittal and should be read in conjunction with it.

## **PROFILE OF THE COUNTY**

Bernalillo County is located in the central region of the state and is the economic and population hub of New Mexico. Its boundaries encompass the entire City of Albuquerque. With an estimated population of 629,292 in 2007, the County ranks 95<sup>th</sup> in population of the nation's 3,141 counties. It comprises 32 percent of New Mexico's population and 77 percent of the Albuquerque Metropolitan Statistical Area (MSA) comprised of Bernalillo County and portions of Sandoval, Torrance and Valencia Counties.

The County provides public safety, highways and streets, sanitation, cultural and recreational services, public improvements, building, planning and zoning, and general administrative services. The County has a Commission-Manager form of government in which most of the day-to-day administrative duties are delegated to the County Manager. All legislative power within the County is vested in a five-member Board of Commissioners, each of whom are elected for four-year terms from single member districts, with a two-term limit. The executive functions are divided; the powers are shared by the Board and five elected County officials: the Treasurer, Assessor, Clerk, Probate Judge, and Sheriff.

The County maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. The County's legal level of budgetary control is at the fund level, except for the Emergency Medical Services and Fire Districts funds, whose legal level of budgetary authority is at the program or district level. Appropriations within a fund may be adjusted under the authority of the County Manager or Deputy County Managers as long as the total fund appropriations remain the same. Appropriation adjustments between funds require approval of the Board and the New Mexico State Department of Finance and Administration (DFA). The Local Government Division of DFA is the agency responsible for regulating the budgetary affairs of the County. Budget adjustments that do not require DFA approval are limited to transfers of budget between departments within a fund or transfers between line items within a department within a fund. State statutes prohibit the County from making expenditures in excess of the final approved budget at the fund level. The appropriated amounts reflected in the accompanying financial statements are at the function and activity level for the general fund and by object class for all other funds.

### **Local Economy**

Bernalillo County, with the City of Albuquerque (2007 population estimate of 518,271) making up 82 percent of its population, has emerged as a hub for commerce and industry in the Southwest. It accounts for nearly half of all economic activity in New Mexico. In the 2008 Forbes List of "Best Places for Business and Careers," Albuquerque placed 13<sup>th</sup> out of the 200 ranked metro areas in the country, dropping seven spots from 6<sup>th</sup> last year. Albuquerque was

ranked 34<sup>th</sup> in the “Cost of Doing Business” category (no change from prior list) and 47<sup>th</sup> in the “Job Growth” category (up from 56<sup>th</sup> on last year’s list).

Forecasts by the University of New Mexico’s Bureau of Business and Economic Research suggest the near-term outlook for the Albuquerque economy is a mild recession. Nonfarm employment growth dipped 0.2 percent in the third quarter of 2008—the first overall decline in employment since the 2001-2002 recession. The unemployment rate increased in the third quarter to 4.5 percent from 3.9 percent in the previous quarter. The manufacturing and constructions sectors have been hit especially hard by the current economic climate suffering a combined loss of 2,567 jobs. The health care and government sectors have exhibited slight growth, adding 2,166 jobs in the third quarter. Personal income growth is forecast to fall from 4.0 percent in 2008 to 1.9 percent in 2009 with a rebound to 3.6 percent growth in 2010.

The FY 09 general fund budget of \$203,382,647 represents a 2.2 percent decrease from FY 08 budget levels, while the FY 10 budget is estimated to increase by a modest 2.7 percent to \$208,940,143, which returns budget levels to the FY 08 level while still maintaining service levels. Other significant changes for FY 09 include elimination of financial support for the Metropolitan Detention Center by the City of Albuquerque. Property taxes continue to be a stable and growing revenue source for County government and it is estimated to increase by 3.3% in FY 09 and 4% by FY 10. Gross receipts taxes have fluctuated in recent times and are expected to grow only 1% in FY 09 and rebound to 3% in FY 10.

This uncertain economic outlook calls for prudent financial measures in keeping with the County’s duty to be a good steward of the public funds with which we are entrusted.

### **Long-Term Financial Planning**

The financial condition of the County is strong as reflected in the County’s bond ratings of AAA by Standard & Poor, Aa1 by Moody’s and AA+ by Fitch. The County has made an enormous effort to incorporate comprehensive financial planning in its long-range vision in order to remain solvent during the current economic downturn. In addition to the 3/12<sup>th</sup> reserve requirement required by the State of New Mexico of \$64,204,173, the County’s long-term financial plan includes extraordinary maintenance for aging infrastructure and adequate reserves for the County’s provision of public safety services and for response to emergencies and natural disasters.

### **Relevant Financial Policies**

Bernalillo County recently began its second biennial budget. Through the biennial budget process, approval is granted by the Board of County Commissioners for an appropriation of two fiscal years at once, with funding being available to departments one year at a time. Departments were provided a base budget and salary projections for each of the two years. Departments have the opportunity to evaluate their budgets prior to commencement of the second year. Any necessary changes will be presented to the Board of County Commissioners as adjustments to the base budget. The biennial budget process has encouraged a long-term view of financial planning and shifted the emphasis from the process itself to a more careful examination of resource allocation choices.

## **Major Initiatives**

FY 09 begins a new chapter in Bernalillo County's continuing efforts to improve the effectiveness and efficiency of County government. This fiscal year signals the culmination of three years of planning, developing and implementing Phase I of the new Enterprise Resource Planning (ERP) software system. Bernalillo County officially began its use on July 7, 2008.

The ERP solution will dramatically change the way the County does business by consolidating four disparate general ledgers, and creating new systems for budgetary controls, accounts payable and receivable processes, grants management, funds and treasury management, cashiering, purchasing, fixed assets and inventory, accounting, and project and plant maintenance. Phase two of the project began in July 2008 with planning for an updated budget preparation system to be implemented by the end of FY 09.

The support of the Board during this process, including the allocation of funding and authorization for the necessary staffing to complete this task, has been instrumental in the success of this undertaking. The numerous staff involved in the planning, design, training and implementation are commended for their efforts.

In addition to the ERP implementation, over the past few years the County has focused on streamlining processes and integrating technology into various County business processes. For example, applicants for Bernalillo County employment have an easier time than ever by applying for positions utilizing the online application system maintained by the County's Human Resources Department. In fact, over 98 percent of the over 17,000 applications submitted annually to the County are received electronically—a number that has grown by 42% in the past year. Through this system applicants can apply, human resource staff can screen and hiring managers can review screened applications online.

Another example is the employee self-service online program which allows employees to review personal data such as contact information, leave balances, end of year tax forms and paystubs. Electronic integration of employee identification badges into the system enables seamless production or replacement of identification badges. Coupled with the recently developed online training calendar and upcoming online performance review process, the County has made it even easier for employees, prospective employees and managers to access and utilize important information.

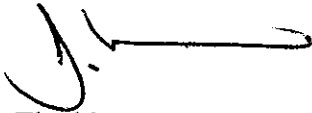
## **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the fourth consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the County must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

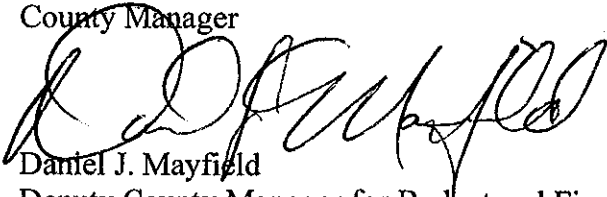
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for this prestigious recognition.

The preparation of this report would not have been possible without the dedicated service of the entire Accounting Department staff of the Budget and Finance Division. We also would like to express our appreciation to County departments that assisted and contributed to the preparation of this report. The Board of County Commissioners is recognized and thanked for its stewardship in overseeing the financial operations of the County in a responsible and progressive manner.

Sincerely,



Thaddeus Lucero  
County Manager



Daniel J. Mayfield  
Deputy County Manager for Budget and Finance